




**INTER-CITY GAS**  
L I M I T E D

**ANNUAL REPORT**

**NINETEEN HUNDRED AND SEVENTY - EIGHT**



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INTER-CITY GAS LIMITED

## HIGHLIGHTS

	Actual Reported		Pro Forma		
	1978 \$000	1977 \$000	1978 \$000	1977 \$000	% Increase (Decrease)
<b>FINANCIAL</b>					
Gross Revenues	229,090	81,995	390,066	354,591	10
Net Income	7,328	5,137	9,178	7,493	22
Per Common Share					
Net income	\$1.21	\$0.94	\$1.09	\$0.90	21
Cash Dividends	\$0.28	\$0.27	\$0.28	\$0.27	4
Long-Term Debt	98,298	46,776	98,298	101,180	(3)
Shareholders' Equity	61,488	29,987	61,488	47,418	30
Total Assets	327,868	126,032	327,868	304,963	8
Capital Expenditures	18,569	6,644	29,640	24,660	20
Average Number of Common Shares					
Outstanding	4,944	4,296	7,202	7,142	1

## OPERATING

	1978	1977
Propane — gallons	200,411,000	208,524,000
Gasoline and other petroleum products — gallons	185,840,000	195,534,000
Natural gas		
— Utility sales - MCF	45,387,000	43,368,000
— Production sales - MCF after royalties	7,477,000	8,511,000
Oil production		
— Barrels after royalty	256,763	283,964

Total gross proved reserves	Directly owned	Canadian Homestead
Natural gas - million cubic feet	157,202	873,127
Oil - thousand barrels	2,852	10,974
Common shares effectily owned in Canadian Homestead Oils Limited	3,215,100 or 45%	

## Contents

1. Highlights
2. Earnings per Share
4. Directors and Officers
5. Report to Shareholders
13. Business Segments
14. Exploration and Production Maps
16. Ten Year Summary
18. Map of Company's Operations
20. Financial Statements

## Annual Report on Form 10-K

The SEC Annual Report Form 10-K for the year ended December 31, 1978 will be provided by mail upon receipt of a written request from any person who is a beneficial owner of Inter-City Gas Limited's common stock.

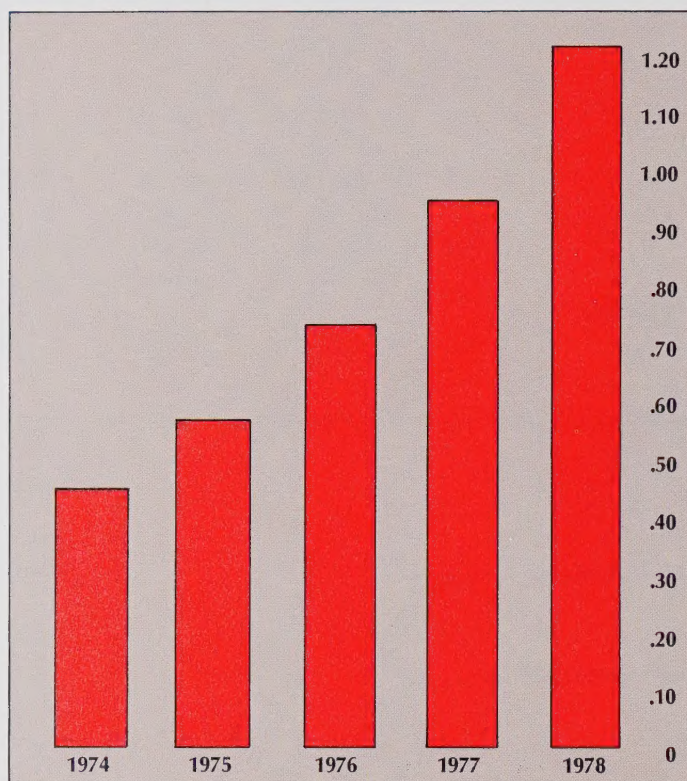
Such written requests should be directed to: the Secretary, Inter-City Gas Limited, Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba R3C 3T7.





INTER-CITY GAS LIMITED

### Earnings Per Share



Securities of the company are traded on the American, Toronto and Winnipeg stock exchanges. The following table provides certain market information for the years ended December 31, 1978 and 1977.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
MARKET PRICE PER COMMON SHARE					
1978	High	\$8.00	\$7.375	\$8.75	\$8.875
	Low	\$6.375	\$6.75	\$6.75	\$7.125
1977	High	\$7.00	\$7.50	\$7.75	\$8.00
	Low	\$6.00	\$6.00	\$7.00	\$6.625
DIVIDENDS PER COMMON SHARE					
1978		\$0.07	\$0.07	\$0.07	\$0.07
1977		\$0.06	\$0.07	\$0.07	\$0.07





COMPANY HEAD OFFICE: INTER-CITY GAS BUILDING, WINNIPEG, MANITOBA





## INTER-CITY GAS LIMITED

### DIRECTORS

C. ROY BEENHAM

ROBERT G. GRAHAM

WAYNE R. HARDING

GORDON P. OSLER

J. DEREK RILEY

E. P. RIMMER, P. Eng.

ALAN SWEATMAN, Q.C.

### OFFICERS

ROBERT G. GRAHAM  
*President and  
Chief Executive Officer*

WAYNE R. HARDING, C.A.  
*Executive Vice-President and  
Treasurer*

C. ROY BEENHAM  
*Senior Vice-President*

W. R. LOREN  
*Vice-President*

N. J. DIDUR  
*Vice-President*

PETER MARRIOTT, C.A.  
*Vice-President and  
Controller*

RAY L. ZELL  
*Vice-President*

J. E. CARSTAIRS  
*Secretary*

BARRÉ W. HALL  
*Assistant Secretary*

### STOCK EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE  
AMERICAN STOCK EXCHANGE  
WINNIPEG STOCK EXCHANGE

### SOLICITORS

THOMPSON, DORFMAN, SWEATMAN

### AUDITORS

COOPERS & LYBRAND

### TRANSFER AGENTS AND REGISTRAR

GUARANTY TRUST COMPANY  
Winnipeg, Toronto, Calgary and Vancouver

### HEAD OFFICE

Inter-City Gas Building  
444 St. Mary Avenue  
Winnipeg, Manitoba  
R3C 3T7



(LEFT TO RIGHT): Wayne R. Harding, C. Roy Beenham, W. R. Loren, N. J. Didur, Peter Marriott,





**R. G. GRAHAM**  
*President*

## Report to Shareholders

We are pleased to report an increase of 29% in net earnings per common share and a successful conclusion to your company's offer to acquire all of the outstanding common shares of Canadian Hydrocarbons Limited. Earnings per common share were \$1.21 compared with 94c last year.

Until July 31, 1978, your company owned 49.7% of the outstanding common shares of Canadian Hydrocarbons Limited. On that date, 1½ common shares of Inter-City were offered for each share of Canadian Hydrocarbons.

By December 31, 1978, your company owned 98.5% of the total outstanding common shares of Canadian Hydrocarbons and has since increased that position to 100%. Inter-City's results for the year include the net income of Canadian Hydrocarbons on an equity accounting basis to July 31, 1978, and on a consolidated basis for the balance of the year. Specifically, the Consolidated Statement of Income sets out Inter-City's 49.7% interest in Canadian Hydrocarbons to July 31, 1978, as "Equity in Net Income of Canadian Hydrocarbons Limited" and from August 1 to December 31, 1978, the operating results of Canadian Hydrocarbons are added to those of Inter-City with the appropriate provision for minority interests. In the Consolidated Statement of Changes in Financial Position, the 1978 changes include Canadian Hydrocarbons Limited only for the five month period from August 1 to December 31, 1978.

We refer you to note 2 in the financial statements which sets out results of Inter-City and Canadian Hydrocarbons as they would appear had the consolidation taken place at the beginning of the year.

During 1978 your company increased common share equity by \$31,209,903, primarily through the issue of 3,804,338 common shares in exchange for shares of Canadian Hydrocarbons Limited, and created and issued 100,000 third preference shares for \$6,500,000.

In addition, the 228,800 second preference shares originally issued by Canadian Hydrocarbons and held by Inter-City were sold for \$4,816,240.

Long-term debt was increased during December of 1978 by the assumption of a Eurodollar loan of \$5,000,000 and a term bank loan in the United States of \$4,000,000.

Funds provided by the above security issues



were applied to a capital expenditure program totalling \$29,642,000.

With the consolidation of Canadian Hydrocarbons your company now has 2,800 employees across Canada and the northwestern United States participating in all phases of the gas industry. Your executive officers, located in the Inter-City Gas Building in Winnipeg, are as follows:

- |                  |  |
|------------------|--|
| Robert G. Graham | — President and Chief Executive Officer  |
| Wayne R. Harding | — Executive Vice President   |
| W. R. Loren      | — Group Vice President responsible for petroleum products                                  |
| Norman J. Didur  | — Group Vice President responsible for utilities   |
| C. R. Beenham    | — Senior Vice President responsible for corporate administration and manufactured products |
| Peter Marriott   | — Senior Vice President responsible for accounting and financial control                   |

In the following review, results of each operating division are reported upon for a full year without distinguishing between those of Inter-City Gas and Canadian Hydrocarbons.

### UTILITY OPERATIONS

The company operates natural gas utility systems in 158 communities and 26 farm areas in Manitoba, Alberta, British Columbia, Ontario and Minnesota, and the electrical utility system in Yellowknife, Northwest Territories. At year end, the division served 79,317 natural gas and 3,231 electrical customers.

Sales during 1978 totalled 45,387,000 MCF of natural gas and 66,888,000 Kilowatts of electricity compared with 43,368,000 MCF and 61,200,000 Kilowatts during 1977.

Revenues in 1978 were \$98,903,000 compared with \$83,137,000 in 1977. This increase was primarily a result of the pass through to our customers of increased costs of natural gas and electricity from our suppliers and higher Canadian currency equivalent of sales in the United States.

Throughout our service area temperatures averaged 6% colder than 1977 although only marginally colder than normal. Colder weather together with sales to an increased number of residential customers more than offset a loss of industrial volume due to labour strikes and



*Laying of pipe to extend service area in Alberta.*



contributed substantially to the improvement in operating profit. Operating profit increased to \$10,052,000 in 1978 from \$9,342,000 in 1977.

The Company feels a consensus is developing in Canada under which natural gas service will be extended East of Montreal. In order to be in a position to participate in the distribution of natural gas within the Province of Quebec the Company has formed and staffed Gaz Inter-Cité Québec Inc. which is presently carrying out feasibility studies on gas distribution within the province.

The division operates in 8 regulatory jurisdictions and processed a total of 23 rate adjustment applications during the year of which 20 were relative to the passing through of increased costs from our suppliers, and 3 were major hearings convened to examine our request for increased revenues in order to offset increased operating costs and to improve operating results. All of these hearings resulted in satisfactory rate adjustments.

## PETROLEUM PRODUCTS

The company distributes petroleum products through 202 outlets across Canada and 106 outlets in the five northwestern United States; operates two small crude oil refineries in the United States; and, processes natural gas at plants in Alberta and Montana.

Sales volumes and revenues during 1978 and 1977 are compared below:



*Petroleum Products Retail Outlet.*

	Sales Volumes (thousands of imperial gallons)					
	Canada		U. S. A.		Total	
	1978	1977	1978	1977	1978	1977
Propane	176,163	184,568	24,248	23,956	200,411	208,524
Gasoline	45,558	52,343	74,105	73,645	119,663	125,988
Light & Residual Oils	1,087	9,472	65,090	60,074	66,177	69,546
	<u>222,808</u>	<u>246,383</u>	<u>163,443</u>	<u>157,675</u>	<u>386,251</u>	<u>404,058</u>

	Revenues (thousands of dollars)					
	Canada		U. S. A.		Total	
	1978	1977	1978	1977	1978	1977
Propane	81,160	76,574	11,100	9,900	92,260	86,474
Gasoline	37,006	39,371	45,664	38,540	82,670	77,911
Light & Residual Oils	840	4,448	26,672	22,313	27,512	26,761
	<u>119,006</u>	<u>120,393</u>	<u>83,436</u>	<u>70,753</u>	<u>202,442</u>	<u>191,146</u>

In Eastern Canada total propane volumes declined substantially as a result of reduced export



and wholesale sales. Typically, these low margin sales fluctuate widely from one year to the next and are not critical to the profitability of the division. Increased residential and commercial sales at higher margins resulted in increased revenue and gross profits. The reduction in sales of gasoline and light and residual oils is a consequence of disposing of unprofitable gasoline locations and discontinuing low margin sales of fuel oil to jobbers in Eastern Canada. The Canadian operations contributed \$10,522,000 to operating profit compared with \$9,657,000 in 1977.

We have commenced distribution of industrial gases, principally oxygen and nitrogen. These products are complementary to propane distribution and can be marketed with minimal incremental costs. It is expected that when the distribution program for industrial gases has been fully implemented this new product line will have a positive effect on future earnings.

In the United States selling price increases in all petroleum products were not sufficient to absorb the increasing costs of crude oil due to highly competitive market conditions and federal controls on gasoline prices. Although our allowable maximum selling prices were sufficient to absorb our increased costs, we were frequently obliged to maintain prices below our allowable maximum in order to compete in areas where our competitors were restricted to lower ceiling prices. We experienced significant reductions in gross margin on all of our products marketed in the United States. As a result of these reductions, the United States operations contributed only \$913,000 to operating profit compared with \$2,723,000 in 1977.

During 1979 we will complete our modification program at both crude oil refineries and will be capable of producing high octane, no lead gasoline which is currently increasing in demand throughout the United States. This product commands a premium price which, together with the recent improvements in gasoline pricing regulations, should provide the opportunity to increase gross margins.

The crude oil refineries operated at approximately 90% of a combined rated capacity of 10,000 barrels per day compared with 80% during 1977. The gas processing plants in Alberta and Montana operated at 55% and 63% of capacity respectively, compared with 54% and 82% during 1977. The operating capacities of the gas processing plants is determined by the circumstances of the natural gas suppliers utilizing these facilities and is not within the control of the company.



*Gas processing plant near Edmonton.*

#### **INTER-CITY 1978 DRILLING SUMMARY**

Wells in which ICG participated	58
Wells operated by ICG	27
Status at year end	
Completed gas wells	39
Completed oil wells	2
Abandoned	14
Drilling	3
Total	<u>58</u>



EXPLORATION DIVISION  
OIL AND GAS RESERVES  
DECEMBER 31, 1978

**CANADIAN PROPERTIES**

<b>BEFORE ROYALTIES</b>	<b>PROVED</b>	<b>PROBABLE</b>	<b>COMBINED</b>
Natural Gas (millions of cubic feet)	144,456	29,107	173,563
Oil (thousands of barrels)	184	176	360
Natural Gas Liquids (thousands of barrels)	37	12	49
<b>AFTER ROYALTIES</b>			
Natural Gas (millions of cubic feet)	105,841	20,577	126,418
Oil (thousands of barrels)	152	149	301
Natural Gas Liquids (thousands of barrels)	25	9	34

**UNITED STATES PROPERTIES**

<b>BEFORE ROYALTIES</b>		
Natural Gas (millions of cubic feet)	12,746	12,746
Oil (thousands of barrels)	2,669	2,669
<b>AFTER ROYALTIES</b>		
Natural Gas (millions of cubic feet)	11,126	11,126
Oil (thousands of barrels)	2,333	2,333

**TOTAL**

<b>BEFORE ROYALTIES</b>			
Natural Gas (millions of cubic feet)	157,202	29,107	186,309
Oil (thousands of barrels)	2,852	176	3,029
Natural Gas Liquids (thousands of barrels)	37	12	49
<b>AFTER ROYALTIES</b>			
Natural Gas (millions of cubic feet)	116,967	20,577	137,544
Oil (thousands of barrels)	2,485	149	2,634
Natural Gas Liquids (thousands of barrels)	25	9	34

**EXPLORATION AND PRODUCTION**  
(Direct Operations)

The company participates in exploration and drilling of gas and oil in both Canada and the United States, primarily in Alberta, North Dakota and Montana. At December 31, 1978, we held substantial interests in 384 gas wells and 29 oil wells. Approximately 85% of these wells are operated by Inter-City.

Average daily production during 1978 of 20,484,900 cubic feet of natural gas and 703 barrels of oil compare with 23,317,800 cubic feet of natural gas and 778 barrels of oil produced during 1977. Reduced natural gas production for the account of the company was a result of the conversion during 1978 of a partner's royalty interest in a major gas field to a working interest position; and to the curtailment of production in response to an oversupply problem experienced by the major gas purchaser in Alberta. In spite of lower production, revenue was essentially unchanged due to higher well head prices. Operating profits for 1978 were \$7,770,000 compared with \$7,678,000 in 1977.

Based upon evaluation by independent engineering consultants, at December 31, 1978, our gross proved reserves were 157,202 million cubic feet of natural gas and 2,852 thousand barrels of crude oil and natural gas liquids. Details of reserves are set out in the accompanying chart.

In Canada, exploration activity included wildcat drilling from the Fort St. John area of British Columbia across the breadth of the Western Canada sedimentary basin to the Medicine Hat area of southern Alberta. These wildcat ventures ranged from deep prospects in the Alberta foothills through moderate depth stratigraphic prospects to shallow gas prospects in the Lac La Biche and Medicine Hat areas of Alberta. In the United States, the company participated in exploratory drilling along the Gulf Coast in Texas and Louisiana and drilled additional wells near company owned refineries in Montana and North Dakota.

During the year the company served as operator in a drilling fund which provided \$5,178,000 for exploration in Canada. Inter-City contributed drilling acreage, defined additional drilling prospects, and joined the fund as a 10% working interest partner in all new prospects. At December 31, 1978, the total funds provided had been committed to 20 prospects of which 10 were drilled resulting in 5 completed gas wells.



## EXPLORATION AND PRODUCTION (Canadian Homestead Oils Limited)

Your corporation participated in further oil and gas exploration and production activities by way of its interest in Canadian Homestead Oils Limited through an exploration agreement under which the corporation had expended \$15,872,000 and has earned 2,667,087 of Homestead's common shares. These shares together with 629,900 shares owned by Castle Oil & Gas Limited, an 87% owned subsidiary give your company an effective interest of 45% of the total outstanding shares of Canadian Homestead. Under the terms of the current agreement \$2,340,000 remains to be expended in annual installments of not less than \$1,500,000 or more than \$3,070,000. At the conclusion of the agreement, Inter-City will effectively own approximately 50% of Canadian Homestead.

Canadian Homestead Oils Limited is a public company with shares listed on the Toronto Stock Exchange in Canada and the American Stock Exchange in the United States. Based upon the present effective number of Homestead shares beneficially owned by Inter-City, each common share of Inter-City indirectly represents 44% of a share of Homestead. Highlights of the Canadian Homestead annual report are set out below.

Revenues were a record high of \$8,549,000 in 1978 and although net earnings of 50c per common share were unchanged from 1977, cash flow from operations increased substantially.



*Drilling rig on location.*

### Reserves and Production

Based upon evaluation by independent engineering consultants, at December 31, 1978, Homestead's gross proved reserves (excluding the Arctic Islands) were 219,927 million cubic feet of natural gas compared with 188,797 million in 1977 and 10,974 thousand barrels of oil and natural gas liquids compared with 10,081 thousand in 1977.

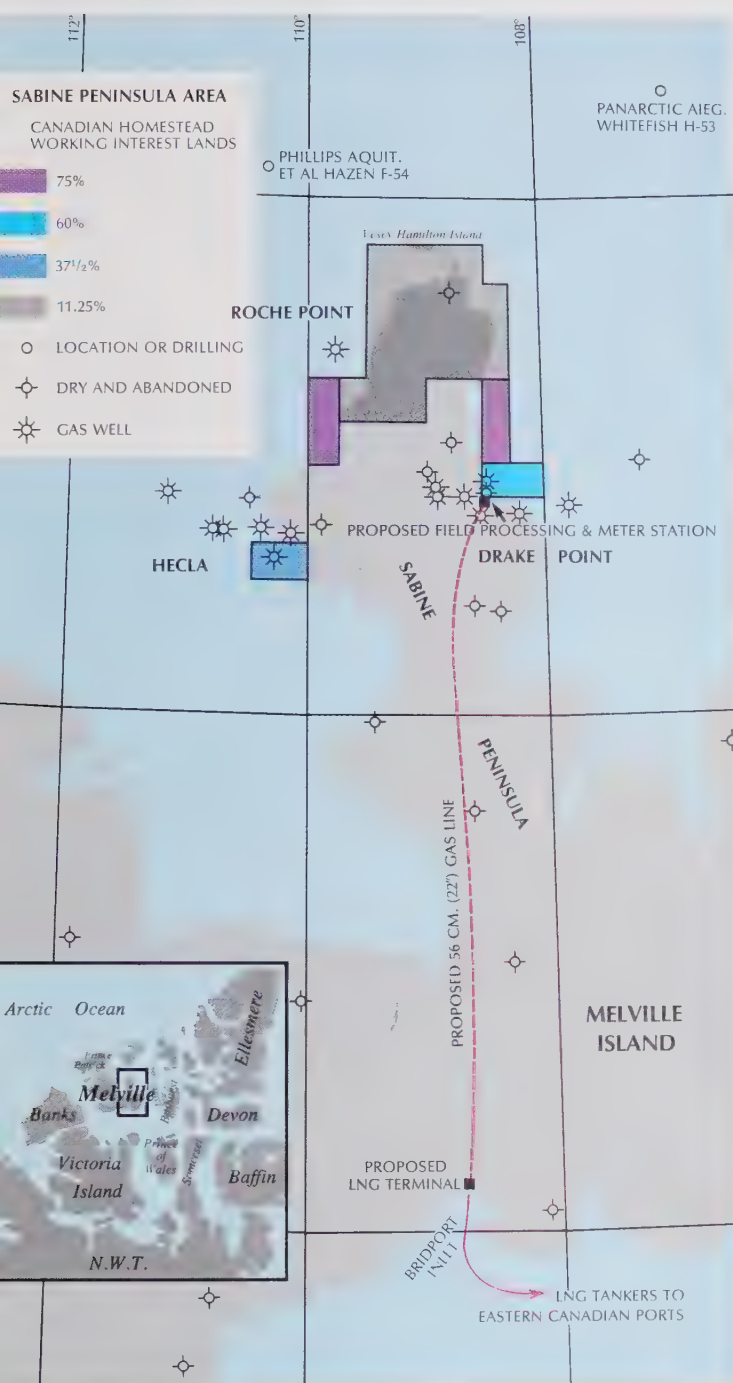
Proven reserves attributable to the Arctic Islands are 653,200 million cubic feet.

After deducting royalties, net daily crude oil and condensate production in 1978 was 1,326 barrels; net daily natural gas production was 5,300,000 cubic feet.

### Land Holdings

At year end Homestead's holding of petroleum and natural gas leases, and reservations, licenses and permits totalled 13,114,200 gross acres, equal to 4,824,900 net.





Areas of major interest included in the above totals are the Arctic Islands with 7,162,400 gross acres, 3,239,700 net; Hudson Bay with 3,486,000 gross acres, 728,500 net; and Alberta with 1,503,900 gross acres, 664,300 net.

## 1978 DRILLING ACTIVITY

Wells in which Homestead participated	64
Status at December 31, 1978	
Completed gas wells	24
Completed oil wells	8
Abandoned	32
	<u>64</u>

In addition, 17 wells were drilled by others on land in which Homestead has a royalty interest.

## Arctic Islands

Panarctic Drake F-76, the first Arctic region well ever completed and equipped for production from offshore, was drilled on Homestead's 60% owned Melville Island Permit in the Drake Point gas field. This engineering "first", a \$21 million joint venture by Panarctic Oils Ltd., Petro-Canada and Alberta Gas Trunk Line, established the feasibility of producing offshore Arctic wells and justified continuing exploration of the offshore regions, where most of the gas reserves found to date are located. This project, prerequisite to the eventual marketing of Arctic Island gas reserves, will be of significant benefit to Homestead.

## Capital Expenditure

During 1978, Homestead expended \$11,283,000 on land acquisition, exploration and development drilling, and investment in production equipment, primarily in Alberta.

Capital projects currently in progress include the South Rosevear and East Kaybob gas gathering and processing facilities. An estimated \$10 million will be expended by Homestead on these facilities in which it has a 30% and 20% interest respectively. Production, expected to commence during late 1979, is estimated to enhance 1979 revenues by 50% over 1978.

## MANUFACTURED PRODUCTS

The company has plants in Winnipeg and St. Catharines which manufacture residential and commercial heating equipment. Most of these

products, together with related equipment such as air conditioning, ducts and fittings purchased from other manufacturers, are sold to the heating trade through company owned distribution outlets in major Canadian cities. The remainder of our manufactured products are sold to other wholesale distributors and on a brand line basis to large home builders and major retail chains.

Revenue from residential heating equipment was essentially the same as 1977 with our sales volume accounting for approximately 13% of the oil fired furnaces, 18% of electric forced air furnaces and 21% of the gas fired furnaces sold in Canada during 1978.

Increased revenues and gross margins during 1978 are primarily attributable to increased sales of purchased products and manufactured commercial heating equipment. The division contributed \$1,325,000 to operating profit compared with \$984,000 in 1977.

The company retails a variety of hardware products primarily related to propane consumption through the petroleum distribution outlets in Canada. These products include propane cylinders, appliances, fittings and welding equipment. Because of the low incremental cost of distributing these products, the gross profits from merchandise sales contributes significantly to operating profits. During 1978, sales exceeded \$15,000,000. The company is presently conducting a review of both wholesale and retail merchandising operations with a view to rationalizing a national product line comprising both manufactured and purchased equipment.

Thompson Pipe and Steel Company of Denver, Colorado manufactures both large diameter and corrugated steel pipe and distributes waterworks products of other manufacturers. Principal end users are municipalities for water transmission and water and sewage treatment and electrical generating plants for circulating water systems.

New water transmission and electric generating projects did not materialize until late in 1978 and previously bid projects produced during 1978 did not have the gross margins expected. Sales volume of \$17,463,000 produced an operating loss of \$557,000 as compared to 1977 sales of \$15,294,000 and an operating loss of \$696,000.



*Trade fair exhibition of company products.*

ON BEHALF OF  
THE BOARD OF DIRECTORS



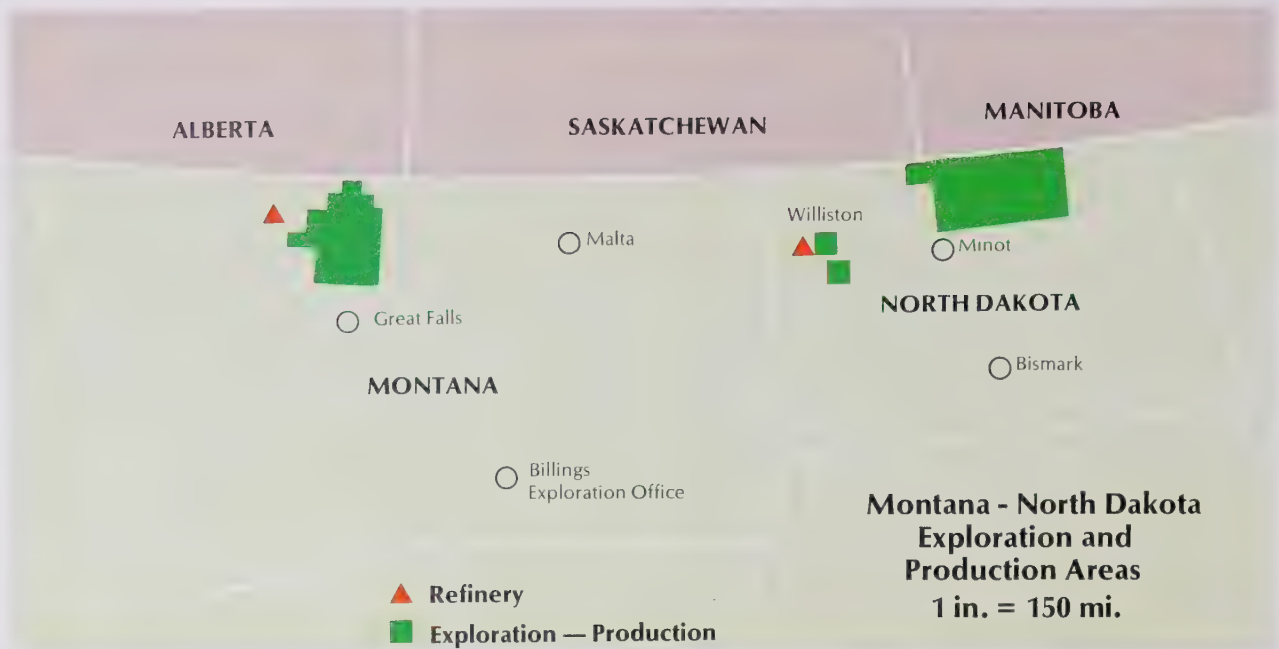
## Business Segments

The following is an analysis of certain financial information by industry lines and geographical areas, which includes the results of Canadian Hydrocarbons Limited (note 2 to financial statements) prepared on a pro forma basis for the five years ended December 31, 1978.

REVENUE	(unaudited)				
	1978 (\$000)	1977 (\$000)	1976 (\$000)	1975 (\$000)	1974 (\$000)
Utility operations					
Canada	54,687	44,670	36,374	26,193	19,048
United States	44,216	38,467	31,770	26,042	16,023
Petroleum products					
Canada					
Propane	81,160	76,574	74,130	73,424	63,884
Gasoline	37,006	39,371	51,112	44,342	29,416
Light & residual fuels	840	4,448	2,959	2,991	2,544
Merchandise and other	25,033	24,025	16,891	18,004	17,846
United States					
Propane	11,100	9,900	9,329	9,591	8,065
Gasoline	45,664	38,540	37,563	42,034	32,143
Light and residual fuels	26,672	22,313	17,442	17,733	16,944
Merchandise and other	8,622	7,992	5,183	5,377	5,864
Exploration and Production					
Canada	11,272	10,985	9,477	7,939	6,282
United States	2,640	2,459	2,560	2,150	2,076
Manufactured products					
Canada	23,691	19,553	18,312	15,424	14,641
United States	17,463	15,294	17,282	17,746	13,917
	<u>390,066</u>	<u>354,591</u>	<u>330,384</u>	<u>308,990</u>	<u>248,693</u>
OPERATING PROFIT					
Utility operations					
Canada	7,581	7,108	7,158	6,482	5,679
United States	2,471	2,234	1,900	2,641	1,986
Petroleum Products					
Canada	10,522	9,657	7,402	10,220	12,657
United States	913	2,723	2,267	2,498	882
Exploration and Production					
Canada	6,712	6,710	4,499	2,820	1,372
United States	1,058	968	1,464	1,178	834
Manufactured Products					
Canada	1,325	984	587	587	1,333
United States	(557)	(696)	2,643	2,293	979
	<u>30,025</u>	<u>29,688</u>	<u>27,920</u>	<u>28,719</u>	<u>25,722</u>

The following financial information provides an analysis of the assets identified as belonging to a particular segment as at December 31, 1978 and 1977, including the assets of Canadian Hydrocarbons Limited with the 1977 figures presented on a pro forma basis.

IDENTIFIABLE ASSETS	Total Assets		Capital Expenditures		Depreciation and Depletion Expense	
	1978 (\$000)	1977 (\$000)	1978 (\$000)	1977 (\$000)	1978 (\$000)	1977 (\$000)
Utility operations						
Canada	78,709	69,624	6,590	5,301	1,665	1,402
United States	24,075	22,264	700	900	334	340
Petroleum Products						
Canada	85,280	85,855	7,674	6,547	4,613	4,322
United States	40,808	29,456	7,031	4,141	1,091	1,213
Exploration and Production						
Canada	35,851	32,100	4,484	5,008	2,892	2,714
United States	9,030	7,726	1,870	1,559	744	575
Manufactured Products						
Canada	14,799	12,375	239	369	184	190
United States	13,804	12,361	691	835	290	244
	<u>302,356</u>	<u>271,761</u>	<u>29,279</u>	<u>24,660</u>	<u>11,813</u>	<u>11,000</u>







# Ten Year Summary of Operations

(THOUSANDS OF DOLLARS)

	1978	1977	1976	1975
Operating Revenues	229,090	81,995	67,728	52,630
Operating Expenses				
Cost of sales	169,441	58,160	48,560	36,603
Operating, selling and administration	33,922	9,928	8,409	6,941
Depreciation and depletion	6,879	3,258	2,215	1,648
	210,242	71,346	59,184	45,192
Operating Profit	18,848	10,649	8,544	7,438
Equity in net income of Canadian Hydrocarbons	1,758	2,852	1,207	—
Equity in net income of Canadian Homestead Oils	713	—	—	—
	21,319	13,501	9,751	7,438
Financial Expenses	11,179	7,439	4,330	2,642
Income before income taxes	10,140	6,062	5,421	4,796
Income taxes	2,428	737	1,572	2,174
	7,712	5,325	3,849	2,622
Minority Interest	(505)	—	—	—
Extraordinary items	121	(188)	—	—
Net Income for the Year	7,328	5,137	3,849	2,622
Dividends Paid				
Preferred shares	1,335	1,100	903	713
Common shares	1,570	1,160	1,031	825
Earnings per common share	\$1.21	.94	.73	.56
Dividends paid per common share	.28	.27	.24	.24
Fixed assets (at cost)	261,079	66,606	60,393	52,832
Shareholders' equity	61,488	29,987	27,598	18,784
Common shareholders' equity	42,691	17,431	14,549	9,625
Number of outstanding common shares	7,162 <sup>†</sup>	4,297	4,296	3,436
Book value per share	\$5.96	4.06	3.39	2.80



1974	1973	1972	1971	1970	1969
37,339	32,689	27,195	22,259	13,403	10,728
25,001	22,585	18,979	15,942	9,226	7,117
5,384	4,713	3,854	3,006	1,984	1,813
919	797	668	568	410	371
31,304	28,095	23,501	19,516	11,620	9,301
6,035	4,594	3,694	2,743	1,783	1,427
—	—	—	—	—	—
—	—	—	—	—	—
6,035	4,594	3,694	2,743	1,783	1,427
2,249	2,136	1,593	1,501	843	739
3,786	2,458	2,101	1,242	940	688
1,659	1,003	547	254	264	99
2,127	1,455	1,554	988	676	589
—	(3)	(11)	(22)	—	(30)
—	—	—	—	—	—
2,127	1,452	1,543	966	676	559
537	352	362	292	221	226
683	378	248	198	158	124
.45	.37	.43*	.26*	.18*	.13*
.20	.12	.09*	7½*	.06*	.05*
48,895	39,288	35,226	30,113	26,103	17,840
17,729	12,808	11,022	9,873	7,577	7,339
8,413	7,503	5,615	4,345	3,952	3,597
3,416	3,411	2,763*	2,648*	2,572*	2,492*
2.46	2.20	2.03*	1.64*	1.54*	1.44*

\* These figures have been adjusted to reflect two-for-one stock splits that took place in the years 1970, 1971, and 1973.

† After deducting shares held by a subsidiary company.





### Major Facilities and Distribution Localities

#### UTILITY SYSTEMS

Gas .....	184
Electrical .....	1

#### PROPANE AND PETROLEUM

PRODUCT OUTLETS .....	308
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#### PROCESSING PLANTS

AND REFINERIES .....	5
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#### CUSTOMERS

Propane and Utilities .....	274,058
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#### MILES OF PIPELINE

Transmission and Distribution	6,867
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#### PROPANE STORAGE FACILITIES

Above Ground .....	51,687,000
Underground .....	19,000,000

MANUFACTURING PLANTS .....	3
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#### WHOLESALE EQUIPMENT

DISTRIBUTION OUTLETS .....	11
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EMPLOYEES .....	2,796
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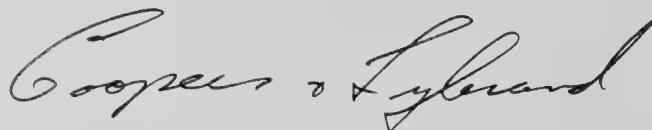


## Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Inter-City Gas Limited as at December 31, 1978 and 1977 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Winnipeg, Manitoba  
March 14, 1979

A handwritten signature in cursive script that reads "Coopers & Lybrand".

CHARTERED ACCOUNTANTS

# Consolidated Statement of Income

for the years ended December 31, 1978 and 1977

	1978 \$	1977 \$
<b>Operating Revenue</b>		
Sales and related income	229,090,047	81,994,956
<b>Operating Expenses</b>		
Cost of sales	169,441,118	58,160,220
Operating, selling and administrative expenses	33,922,372	9,927,591
Depreciation and depletion	6,879,047	3,258,138
	210,242,537	71,345,949
<b>Operating Profit</b>	18,847,510	10,649,007
<b>Equity Earnings in Net Income of</b>		
Canadian Hydrocarbons Limited (note 2)	1,758,200	2,851,646
<b>Equity Earnings in Net Income of</b>		
Canadian Homestead Oils Limited (note 3)	713,329	—
	21,319,039	13,500,653
<b>Financial Expenses</b>		
Interest on long-term debt	8,389,599	5,494,607
Other interest	2,817,637	1,274,311
Interest capitalized	(1,020,192)	(344,888)
Amortization of financing expenses and goodwill	581,641	203,314
Loss on foreign exchange	410,267	812,143
	11,178,952	7,439,487
<b>Income Before Income Taxes</b>	10,140,087	6,061,166
<b>Provision for Income Taxes (note 11)</b>	2,427,832	736,695
<b>Income After Income Taxes</b>	7,712,255	5,324,471
<b>Minority Interest in Subsidiary Companies</b>	505,087	—
	7,207,168	5,324,471
<b>Extraordinary Items</b>		
Provision for losses on investments in subsidiary companies and disposal of discontinued operations (net of deferred income taxes of \$512,000; 1977 — \$347,000)	(511,391)	(469,300)
Reduction of income taxes on application of losses of prior years	632,000	281,600
	120,609	(187,700)
<b>Net Income for the Year</b>	7,327,777	5,136,771
<b>Net Income per Common Share (note 12)</b>		
Before extraordinary items	\$1.19	\$0.98
After extraordinary items	\$1.21	\$0.94



Inter-City Gas Limited

# Consolidated Balance Sheet

as at December 31, 1978 and 1977

ASSETS	1978 \$	1977 \$
<b>Current Assets</b>		
Cash and short-term deposits	8,439,923	1,528,239
Accounts and notes receivable (note 4)	62,375,301	17,624,123
Income taxes recoverable	5,124,835	277,109
Inventories (notes 4 and 5)	35,436,998	7,214,115
Prepaid expenses	1,336,455	302,700
	<u>112,713,512</u>	<u>26,946,286</u>
<b>Investments</b>		
Shares of Canadian Homestead Oils Limited (note 3)	23,684,568	—
Shares of Canadian Hydrocarbons Limited	—	40,626,561
Advances to trustees of share purchase plan (note 6)	1,645,737	783,286
Notes and mortgages	2,159,568	19,200
	<u>27,489,873</u>	<u>41,429,047</u>
<b>Fixed Assets (note 7)</b>		
Property, plant and equipment — at cost	261,079,340	66,606,174
Accumulated depreciation and depletion	77,296,015	11,627,399
	<u>183,783,325</u>	<u>54,978,775</u>
<b>Other Assets and Deferred Charges -</b>		
at cost, less amortization		
Financing expenses	2,384,309	872,046
Rate hearings and other	1,180,928	1,416,448
Goodwill	316,147	389,609
	<u>3,881,384</u>	<u>2,678,103</u>

Signed on behalf of the Board



Director



Director

327,868,094

126,032,211

<b>LIABILITIES</b>	<b>1978</b>	<b>1977</b>
	<b>\$</b>	<b>\$</b>
<b>Current Liabilities</b>		
Bank advances (note 4)	52,096,018	18,456,297
Accounts payable and accrued liabilities	60,982,890	13,155,350
Income taxes payable	1,981,316	124,070
Current portion of long-term debt	16,006,873	11,818,897
Deferred income and deposits	4,225,068	195,550
	<u>135,292,165</u>	<u>43,750,164</u>
<b>Long-Term Debt (note 8)</b>	98,298,015	46,775,775
<b>Customers' Contributions in Aid of Construction</b>	503,771	423,983
<b>Deferred Income Taxes (note 11)</b>	16,083,807	5,091,947
<b>Minority Interests in Subsidiaries (note 9)</b>	16,201,719	3,311
	<u>266,379,477</u>	<u>96,045,180</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Stated Capital (note 10)</b>		
Authorized —		
600,000 first preference shares issuable in series		
262,468 second preference shares issuable in series		
10,000,000 third preference shares issuable in series		
20,000,000 common shares		
Issued and fully paid —		
239,450 First preference shares Series B (1977 — 246,450)	4,789,000	4,929,000
200,000 First preference shares Series C (1977 — 200,000)	4,000,000	4,000,000
90,518 Second preference shares Series A (1977 — 94,268)	1,810,360	1,885,360
84,885 Second preference shares Series B (1977 — 87,085)	1,697,700	1,741,700
100,000 Third preference shares Series A (1977 — Nil)	6,500,000	—
8,199,183 common shares (1977 — 4,297,495)	38,157,234	6,947,331
	<u>56,954,294</u>	<u>19,503,391</u>
<b>Retained Earnings</b>	14,906,823	10,483,640
	<u>71,861,117</u>	<u>29,987,031</u>
<b>Common Shares of Inter-City Gas Limited held by a Subsidiary Company, 1,037,250 Shares — at cost</b>	10,372,500	—
	<u>61,488,617</u>	<u>29,987,031</u>
	<u>327,868,094</u>	<u>126,032,211</u>



# Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1978 and 1977

	1978 \$	1977 \$
<b>Source of Funds</b>		
Provided from operations	14,350,071	7,636,547
Extraordinary item — gain (loss)	120,609	(187,700)
Proceeds from issue of third preference shares Series A	6,500,000	—
Proceeds from issue of common shares	775,200	5,950
Term bank loans	10,738,931	—
Customers' contributions in aid of construction	79,788	27,033
Proceeds from sale of fixed assets	1,553,148	136,534
Collections on notes and mortgages	647,411	85,011
Proceeds from sale and redemption of preferred shares of Canadian Hydrocarbons Limited	4,816,240	97,500
	<u>39,581,398</u>	<u>7,800,875</u>
<b>Use of Funds</b>		
Additions to fixed assets	18,569,470	6,644,034
Repayment of long-term debt	9,302,712	4,795,576
Dividends to shareholders	2,904,594	2,260,428
Dividends to minority interests	350,043	—
Redemption of preference shares	259,000	493,300
Cost of shares in Canadian Homestead Oils Limited	626,416	—
Other assets and deferred charges	1,016,614	630,481
Increase in notes and mortgages	60,557	—
Advances to trustees of share purchase plan	862,451	—
Working capital deficit of Canadian Hydrocarbons Limited at July 31, 1978	11,404,316	—
	<u>45,356,173</u>	<u>14,823,819</u>
<b>Increase in Working Capital Deficiency</b>	5,774,775	7,022,944
<b>Working Capital Deficiency — Beginning of Year</b>	16,803,878	9,780,934
<b>Working Capital Deficiency — End of Year</b>	<u>22,578,653</u>	<u>16,803,878</u>
<b>Working capital deficiency is represented by:</b>		
Current liabilities	135,292,165	43,750,164
Current assets	112,713,512	26,946,286
	<u>22,578,653</u>	<u>16,803,878</u>

# Consolidated Statement of Retained Earnings

for the years ended December 31, 1978 and 1977

	1978 \$	1977 \$
Balance — Beginning of Year	10,483,640	7,607,297
Net income for the year	<u>7,327,777</u>	<u>5,136,771</u>
	<u>17,811,417</u>	<u>12,744,068</u>
Dividends paid —		
First preference shares Series A	400,868	421,946
First preference shares Series C	420,000	420,000
Second preference shares Series A	120,377	126,253
Second preference shares Series B	130,984	132,064
Third preference shares Series A	262,933	—
Common shares	<u>1,569,432</u>	<u>1,160,165</u>
	<u>2,904,594</u>	<u>2,260,428</u>
Balance — End of Year	<u><u>14,906,823</u></u>	<u><u>10,483,640</u></u>



# Notes To Consolidated Financial Statements

for the years ended December 31, 1978 and 1977

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Consolidation —

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies and have been prepared in accordance with generally accepted accounting principles in Canada which differ in certain respects with accounting principles in the United States. These differences are described further in the company's annual report on Form 10-K filed with the Securities and Exchange Commission. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The amounts by which the purchase price of subsidiary companies exceeds the fair market value of the assets acquired have been treated as goodwill and are being amortized on a straight line basis over ten and twenty years.

### Foreign Exchange —

The accounts of subsidiaries and divisions operating in the United States are translated into Canadian dollars at the rates of exchange on the balance sheet date for current assets and current liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses. Gains and losses on translation are reflected in income.

### Fixed Assets —

Fixed assets are recorded at cost which includes interest and overhead amounts capitalized during the construction period, and also includes the full cost method of accounting for oil and gas properties.

Depreciation is provided on a straight line basis at the following rates based on the estimated useful lives of the applicable assets:

Buildings	2½% — 10%
Transmission lines and distribution systems	1% — 5%
Customer installations	2% — 5%
Refineries and gas plants	7% — 10%
Transportation equipment	18% — 30%
Machinery, equipment and furniture	10% — 20%

Depletion of oil and gas properties and depreciation on well equipment and gathering systems are provided on a unit of production method based on estimated recoverable reserves. Limited term interest in oil and gas leases are depleted over their remaining terms.

### Inventories —

Inventories of propane and other petroleum products are valued at the lower of cost (first-in, first-out) and replacement cost except for certain United States subsidiaries which price these inventories on the last-in, first-out method. Inventories of merchandise, materials, and supplies are valued at the lower of cost and net realizable value. Cost is determined for work in process and finished goods at standard prices and for raw materials and supplies, on a first-in, first-out basis.

### Investments —

The company accounts for its investment in Canadian Homestead Oils Limited by the equity method. Other investments are stated at cost.

### Deferred Charges —

Amortization of financing expenses is provided on a straight line method over the terms of the respective issues and the amortization of other deferred charges is provided on a straight line method over periods of five to twenty years.

### Income Taxes —

Regulatory agencies have directed certain subsidiaries in the utilities operations to provide only those income taxes currently payable in their financial statements and in the calculation of their rates of return for rate making purposes. However, for all other operations, the company provides for deferred income taxes on all timing differences between accounting income and taxable income, including those relating to its exploration, development and acquisition of petroleum and natural gas properties.

## 2. ACQUISITION OF CANADIAN HYDROCARBONS LIMITED

In 1976, the company acquired a 49.7% interest in Canadian Hydrocarbons Limited (Hydrocarbons) through the acquisition of 2,556,656 of its common shares. On July 28, 1978, the company issued a Take-over Bid Circular and Prospectus whereby it offered 1½ of its common shares for each common share of Hydrocarbons. At December 31, 1978, the company held 98.5% of the outstanding common shares of Hydrocarbons.

The company followed the equity method of accounting for its interest in Hydrocarbons to July 31, 1978, and subsequent to that date has followed consolidation accounting principles.

The acquisition has been accounted for as follows:

	(\$000)
Equity accounted holding at July 31, 1978	36,926
Consideration given by way of exchange of common shares and associated costs	32,051
	<u>68,977</u>
Represented by:	
Fixed assets	118,266
Increase of property, plant and equipment to fair value	1,551
	<u>119,817</u>
Other non-current assets	36,670
	<u>156,487</u>
Current liabilities	72,540
Current assets	61,136
	<u>11,404</u>
Working capital deficiency	50,740
Long-term debt	9,225
Deferred income taxes	16,141
Minority interest	87,510
	<u>68,977</u>



The following pro forma information shows the results from operations as though Hydrocarbons had been consolidated from the beginning of the respective fiscal years:

	1978 (\$000)	1977 (\$000)
Operating revenue	390,066	354,591
Operating profit	30,025	29,688
Equity earnings in Canadian Homestead Oils Limited	1,740	1,310
	31,765	30,998
Financial expenses	15,854	14,921
Income before taxes	15,911	16,077
Income taxes	5,724	6,645
Income after taxes	10,187	9,432
Provision for minority interest	(968)	(600)
Net operating loss of discontinued business	—	(933)
	9,219	7,899
Extraordinary items —		
Provision for losses on investments in subsidiary companies and disposal of discontinued operations	(673)	(976)
Reduction of income taxes on application of losses of prior years	632	570
	9,178	7,493
Dividends on preference shares	1,335	1,100
Net income to common shares	7,843	6,393
Net income per common share —		
Before extraordinary items	\$1.08	\$0.96
After extraordinary items	\$1.09	\$0.90
Average number of common shares outstanding	7,201,626	7,141,772

The following pro forma source and use of funds shows the combined results as though Hydrocarbons had been consolidated from January 1, 1978.

	(\$000)
SOURCE OF FUNDS	
Provided from operations	21,382
Proceeds from sale of preferred shares of Hydrocarbons	4,816
Proceeds from issue of third preference shares Series A	6,500
Proceeds from issue of common shares	775
Term bank loans	10,739
Customers' contributions in aid of construction	1,189
Sale of fixed assets and collections on notes and mortgages	4,521
	49,922

USE OF FUNDS	(\$000)
Additions to fixed assets	29,642
Redemption of long-term debt	11,850
Dividends to shareholders	4,273
Redemption of preference shares	431
Investment in Canadian Homestead Oils Limited	1,502
Exchange offer costs and other deferred charges	1,675
Discontinued operations	1,213
Other investments	1,520
	<u>52,106</u>
DECREASE IN WORKING CAPITAL	<u>2,184</u>

### 3. INVESTMENT IN CANADIAN HOMESTEAD OILS LIMITED

Under the terms of an agreement between Canadian Propane Gas & Oil Ltd. (Canadian Propane) a subsidiary company and Canadian Homestead Oils Limited (Canadian Homestead), Canadian Propane is committed to expenditures of \$18,212,000 and will receive as consideration 3,018,201 shares of Canadian Homestead.

Canadian Propane is required to expend annually a minimum of \$1,500,000 but not more than \$3,070,000 until the full commitment has been met. Total expenditures to December 31, 1978, were \$15,872,000 which has earned Canadian Propane a total of 2,667,087 common shares of Canadian Homestead of which 2,558,363 shares have been issued to date. The company also owns 629,900 of the outstanding common shares of Canadian Homestead through its 87% interest in Castle Oil & Gas Limited. In total, the company owns 3,296,987 common shares (47%) of Canadian Homestead and at December 31, 1978, had an effective interest of 45%. For accounting purposes, the company has recorded this effective interest on the equity method.

### 4. SECURITY FOR BANK ADVANCES, TERM LOANS AND OTHER LONG-TERM INDEBTEDNESS

Current bank loans, term bank loans and other long-term indebtedness are generally secured by a pledge of inventories, accounts receivable, production proceeds, certain shares of subsidiary and affiliated companies, certain fixed assets and interests in certain petroleum and natural gas properties.

### 5. INVENTORIES

Inventories are classified as follows:

	1978 \$	1977 \$
Propane and petroleum products	9,725,333	—
Raw materials	5,895,795	1,430,785
Work in process	1,852,996	564,158
Finished goods	5,544,153	4,524,012
Merchandise, materials and supplies	12,418,721	695,160
	<u>35,436,998</u>	<u>7,214,115</u>

### 6. SHARE PURCHASE PLAN

During 1978, 120,000 common shares were purchased by the trustees of the plan (no shares were purchased in 1977) of which 115,000 were issued to officers of the company. An amount of \$71,580 was repaid during the year by the trustees to



the company and the balance due from the trustees at December 31, 1978 amounted to \$1,645,737 (1977 — \$783,286).

## 7. FIXED ASSETS

Property, plant and equipment are classified as follows:

	Cost \$	Accumulated depreciation and depletion \$	1978 \$	1977 \$
Land	5,608,116	—	5,608,116	—
Buildings	16,380,162	5,587,257	10,792,905	513,625
Transmission lines and distribution systems	74,243,526	5,019,618	69,223,908	29,582,031
Customer installations	44,342,766	23,428,918	20,913,848	—
Refineries and gas plants	22,310,342	7,689,372	14,620,970	—
Petroleum and natural gas properties, leases and exploration costs	47,220,536	15,323,388	31,897,148	16,148,718
Well equipment and gathering systems	9,569,197	2,245,271	7,323,926	7,794,444
Transportation equipment	14,847,427	8,155,284	6,692,143	—
Machinery, equipment and furniture	26,557,268	9,846,907	16,710,361	939,957
	<u>261,079,340</u>	<u>77,296,015</u>	<u>183,783,325</u>	<u>54,978,775</u>

## 8. LONG-TERM DEBT

The details of long-term debt are as follows:

	1978 \$	1977 \$
Term bank loans, secured, bearing interest at rates of up to 3% over the bank prime rate, repayable during the period 1979 to 1983	51,066,822	45,831,563
Production bank loans, secured, bearing interest at rates of prime x 122.5% repayable during the period 1979 to 1981	7,507,569	—
Sinking fund debentures bearing interest at rates varying from 6% to 9-5/8% due in the years 1979 to 1991	17,462,831	1,094,500
First mortgage bonds issued in series bearing interest at rates varying from 6% to 9½% due in the years 1982 to 1984	7,370,905	7,768,095
Subordinated debentures bearing interest 5% due 1990	7,509,906	—
Promissory notes bearing interest at rates varying from 5% to 10¾% due in the years 1980 to 1995	22,096,607	3,776,399
Sundry notes and mortgages	<u>1,290,248</u>	<u>124,115</u>
	114,304,888	58,594,672
Current maturities included in current liabilities	<u>16,006,873</u>	<u>11,818,897</u>
	<u>98,298,015</u>	<u>46,775,775</u>

Amounts repayable in United States funds are translated into Canadian funds at the historical exchange rates in effect at their respective dates of issue except for current maturities which are translated at the year end exchange rate. If all amounts repayable in United States funds were translated at the exchange rate in effect at year end, it would result in an increase in long-term debt of approximately \$8,200,000 at December 31, 1978.

Under the provisions of the various agreements and indentures, the company is required to make the following instalments during the next five years:

Year	\$
1979	16,006,873
1980	14,789,450
1981	22,738,452
1982	9,098,499
1983	18,586,516

## 9. MINORITY INTERESTS IN SUBSIDIARIES

The minority interests are comprised of the following:

	1978 \$	1977 \$
Preferred shares in Canadian Hydrocarbons Limited and Great Northern Gas Utilities Ltd.	11,823,700	—
Equity interest in —		
Inter-City Manufacturing Limited	39,886	3,311
Canadian Hydrocarbons Limited	1,069,430	—
Fort St. John Petroleums Limited	2,604,560	—
Castle Oil & Gas Limited	664,143	—
	<u>16,201,719</u>	<u>3,311</u>

## 10. STATED CAPITAL

### (a) Authorized —

The first preference shares have been designated as 265,000 Series B shares carrying a cumulative dividend entitlement of \$1.65 per share and are currently redeemable at \$22.00 per share; and 200,000 Series C shares carrying a cumulative dividend entitlement of \$2.10 per share and currently redeemable at \$22.00 per share.

The second preference shares have been designated as 97,268 Series A shares carrying a cumulative dividend entitlement of \$1.30 per share and redeemable at a price not to exceed \$20.63 per share; and 90,200 Series B shares carrying a cumulative dividend entitlement of \$1.50 per share and are currently redeemable at \$21.20 per share.

The third preference shares have been designated as 100,000 Series A shares, carrying a cumulative dividend entitlement at a fluctuating rate equal to one half of the bank prime rate plus 2¼% and redeemable in full on June 1, 1988.

The 100,000 third preference shares Series A were issued during the year for \$6,500,000 cash.

### (b) Purchase funds —

The preference shares have various purchase fund requirements as follows:

First preference shares Series B —

To purchase annually 7% of the original issue amount for each of the years 1979 to 1981, 13% for each of the years 1982 to 1986 and 5% for each year thereafter. In 1978, 7,000 shares were purchased and cancelled (1977 — 18,550).

First preference shares Series C —

To offer to purchase annually 7% of the original issue amount for each of the years 1979 to 1981, 13% for each of the years 1982 to 1986 and 5% for each year thereafter. No shares were cancelled in 1978 or 1977.

Second preference shares Series A and B —

To purchase annually in the market, a minimum of 3% of the original issue amount outstanding at the end of the preceding year. In 1978, 3,750 Series A and 2,200 Series B shares were purchased and cancelled (1977 — 3,000 and 3,115).

Third preference shares Series A —

There are no purchase fund requirements attached to these shares.

The minimum purchase requirements for all series in the next five years are as follows:

Year	\$
1979	748,000
1980	745,000
1981	742,000
1982	1,306,500
1983	1,303,600

(c) Common shares —

During the year, the company issued 3,804,338 common shares in exchange for 2,536,225 shares of Canadian Hydrocarbons Limited; 2,350 shares in exchange for warrants at \$3.50 per share; and 95,000 shares under the share purchase plan for \$771,875.

(d) Warrants —

The company has reserved 595,240 common shares for the exercise of share purchase warrants at \$3.50 per share up to July 31, 1981.

## 11. INCOME TAXES

A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

	1978 \$	1977 \$
Combined federal and provincial income taxes at 46% on income less equity income in Canadian Hydrocarbons Limited and Canadian Homestead Oils Limited	3,527,537	1,476,379
Increase (decrease) in income taxes resulting from —		
Regulated natural gas divisions	(88,700)	(105,700)
Alberta royalty credits	(1,019,145)	(1,000,000)
Provincial and foreign taxes in excess of federal abatement	8,140	366,016
Effective income taxes	<u>2,427,832</u>	<u>736,695</u>

Included in the provision for income taxes are the amounts of deferred income taxes resulting from timing differences between accounting income and taxable income. These amounts are \$1,946,000 in 1978 and \$884,314 in 1977.



If tax allocation had been followed in respect of all timing differences between accounting income and taxable income, the provision for deferred income taxes would have increased and consolidated net income would have decreased by \$88,700 (1977 — \$105,700). At December 31, 1978, the accumulated deferred income taxes would have amounted to approximately \$4,490,700 (1977 — \$4,412,000), in addition to the amounts recorded in the accounts.

## 12. NET INCOME PER COMMON SHARE

The net income per common share is calculated on the weighted average number of shares outstanding during the respective years as follows:

	1978	1977
	\$	\$
Net income for the year	7,327,777	5,136,771
Less: Dividends on preference shares	<u>1,335,162</u>	<u>1,100,263</u>
Net income available to common shares	<u>5,992,615</u>	<u>4,036,508</u>
Weighted average number of shares outstanding during the year	5,634,175	4,296,629
Less: Weighted average of reciprocal shareholding	<u>690,462</u>	<u>—</u>
	<u>4,943,713</u>	<u>4,296,629</u>
Net income per common share before extraordinary items	\$1.19	\$0.98
Extraordinary items	<u>\$0.02</u>	<u>(\$0.04)</u>
Net income per common share after extraordinary items	<u>\$1.21</u>	<u>\$0.94</u>

For the purpose of calculating the dilution, if any, per common share, it has been assumed that the share warrants for 595,240 common shares were exercised on January 1, 1978 and the proceeds received therefrom earned a rate of return equivalent to that earned on the average book value of the common shareholders' equity in 1978. Based on this assumption, there is no material dilution of the 1978 net income per common share. The amount of imputed income was \$415,000 after income taxes.

## 13. LEASE COMMITMENTS

The approximate aggregate minimum annual rentals under long-term leases at December 31, 1978 are as follows:

Year	\$
1979	1,865,000
1980	1,593,000
1981	1,239,000
1982	1,010,000
1983	408,000

## 14. PENSION PLANS

The company has various pension plans available to certain groups of permanent full-time employees. The company makes contributions to the plans based on salary levels and the cost to the company was \$513,900 for the year ended December 31, 1978 (1977 — \$177,156). Unfunded liabilities for past service benefits at December 31, 1978 was nil for the Canadian Plans

and approximately \$1,166,000 (U.S.) for the United States Plans. In addition, the United States plans have a deficiency of approximately \$545,000 (U.S.) in the actuarially computed value of vested benefits over pension plan assets.

## 15. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

	1978	1977
a) Number of directors during the year	7	9
b) Remuneration as directors	\$5,250	\$3,000
c) Number of officers during the year	7	6
d) Remuneration as officers	\$526,600	\$354,650
e) Number of directors who were also officers	4	4

## 16. COMPARATIVE FIGURES

Certain of the 1977 comparative figures have been reclassified to conform with the 1978 presentation.

## 17. BUSINESS SEGMENTS

An analysis of certain financial information by industry lines and geographical areas for the five years ended December 31, 1978 as it relates to revenue and operating profit and as at December 31, 1978 and 1977 as it relates to identifiable assets is included elsewhere in the annual report, and is incorporated herein by reference. The financial information for the years 1978 and 1977 has been audited, and the financial information for the years 1976, 1975 and 1974 is unaudited.













# INTER-CITY GAS LIMITED

Consolidated Statement of Income  
Six Months Ended June 30, 1978  
(Thousands of Dollars)  
(Unaudited)

	1978	1977
<b>OPERATING REVENUE</b>	\$	\$
Sale of Natural Gas		
Utility Operations	32,447	28,030
Production Operations	4,637	4,026
Sale of Manufactured Goods	8,948	7,651
Other Revenue	391	473
	<u>46,423</u>	<u>40,180</u>
<b>OPERATING EXPENSES</b>		
Natural Gas Purchased	26,779	22,651
Cost of Manufactured Goods		
Sold	6,848	5,921
Operating and Maintenance	5,560	4,868
Depreciation and Depletion	1,570	1,281
	<u>40,757</u>	<u>34,721</u>
<b>OPERATING PROFIT</b>	5,666	5,459
<b>EQUITY IN NET INCOME OF CANADIAN HYDROCARBONS LIMITED</b>	1,951	1,374
	<u>7,617</u>	<u>6,833</u>
<b>FINANCIAL EXPENSES</b>		
Interest on Long-Term Debt	2,326	2,484
Other Interest	902	736
Amortization of Financing Expenses and Goodwill	100	70
Loss on Foreign Exchange	411	4
	<u>3,739</u>	<u>3,294</u>
<b>INCOME BEFORE INCOME TAXES</b>	3,878	3,539
<b>INCOME TAXES</b>	657	731
<b>NET INCOME FOR THE PERIOD</b>	3,221	2,808
<b>NET INCOME PER COMMON SHARE</b>	.71	.52
<b>AVERAGE COMMON SHARES OUTSTANDING</b>	3,782,257*	4,295,812

\*The average number of shares outstanding for the six months ended June 30, 1978 has been reduced for the number of shares held by Canadian Hydrocarbons Limited in Inter-City Gas Limited.

# INTER-CITY GAS LIMITED

Consolidated Statement of Changes in Financial Position  
For the Six Months Ended June 30, 1978  
(Thousands of Dollars)  
(Unaudited)

	1978	1977
<b>SOURCE OF FUNDS</b>	\$	\$
Provided from Operations	3,773	3,351
Sale of third Preference Shares	6,500	—
Sale of Preference Shares of Canadian Hydrocarbons	4,816	—
Other	33	68
Term Bank Loans	—	2,455
	<u>15,122</u>	<u>5,874</u>
<b>USE OF FUNDS</b>		
Additions to Fixed Assets	1,355	1,893
Reduction of Long-Term Debt	3,333	1,692
Other Investments	93	—
Dividends	1,141	711
Other	343	642
	<u>6,265</u>	<u>4,938</u>
<b>INCREASE IN WORKING CAPITAL</b>	8,857	936



INTER-CITY GAS LIMITED

INTER-CITY GAS BUILDING  
444 St. Mary Avenue  
Winnipeg, Manitoba R3C 3T7

AR12

INTER-CITY GAS LIMITED

SEMI-ANNUAL REPORT  
FOR THE SIX MONTHS ENDED JUNE 30, 1978



**INTER-CITY GAS LIMITED**  
Consolidated Balance Sheet June 30, 1978  
(Thousands of Dollars) (Unaudited)


**TO THE SHAREHOLDERS**

For the six months ended June 30, 1978, Inter-City's earnings totalled \$3,221,000 or 71c per common share compared with 52c earned during the same period last year.

Although temperatures throughout the utility service areas were close to historic averages, weather was colder than last year, and increased sales volumes improved utility earnings. Higher well head prices of natural gas also contributed to increased earnings.

As at June 30, 1978, Inter-City owned 49.7% of the outstanding shares of Canadian Hydrocarbons Limited. On July 28, 1978 Inter-City mailed each shareholder of Canadian Hydrocarbons Limited a Take-over Bid Circular and Prospectus offering 1½ common shares of Inter-City for each common share of Canadian Hydrocarbons.

For the six months ended June 30, 1978, Canadian Hydrocarbons Limited reported net earnings of 76c compared with 54c for the six months ended June 30, 1977. Canadian Hydrocarbons owns approximately 47% of the outstanding common shares of Canadian Homestead Oils Limited.



**R. G. GRAHAM**  
President

August 15, 1978

**ASSETS**

	1978	1977
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and Other Current Assets	2,135	2,213
Accounts and Notes Receivable	12,480	11,546
Inventories		
— Raw Materials	2,675	2,393
— Work in Process	564	636
— Finished Goods	6,149	6,094
	<u>24,003</u>	<u>22,882</u>
<b>INVESTMENTS</b>		
Equity in Canadian Hydrocarbons Limited	36,494	39,798
Other	896	822
	<u>37,390</u>	<u>40,620</u>
<b>FIXED ASSETS</b>		
Less — Accumulated Depreciation and Depletion	67,877	62,202
	<u>13,113</u>	<u>10,120</u>
	<u>54,764</u>	<u>52,082</u>
<b>OTHER ASSETS AND DEFERRED CHARGES</b>		
	<u>3,749</u>	<u>2,369</u>
	<u>119,906</u>	<u>117,953</u>

**LIABILITIES**

<b>CURRENT LIABILITIES</b>		
Bank Loans	15,469	18,317
Accounts Payable	7,400	9,400
Current Portion Long-Term Debt	8,785	3,597
Other Current Liabilities	297	413
	<u>31,951</u>	<u>31,727</u>
<b>LONG TERM DEBT LESS CURRENT PORTION</b>	<u>43,443</u>	<u>52,160</u>
<b>DEFERRED INCOME TAXES AND OTHER LIABILITIES</b>	<u>5,973</u>	<u>4,764</u>
	<u>81,367</u>	<u>88,651</u>

**SHAREHOLDERS' EQUITY**

<b>Capital Stock</b>		
Authorized —		
600,000 cumulative redeemable first preference shares of the par value of \$20 each, issuable in series		
262,468 cumulative redeemable second preference shares of the par value of \$20 each, issuable in series		
10,000,000 cumulative redeemable third preference shares of the par value of \$54 each, issuable in series		
20,000,000 common shares		
Outstanding —		
246,450 Series B first preference shares (June 30, 1977 - 246,450 shares)	4,929	4,929
200,000 Series C first preference shares (June 30, 1977 - 200,000 shares)	4,000	4,000
93,668 Series A second preference shares (June 30, 1977 - 97,268 shares)	1,873	1,945
86,285 Series B second preference shares (June 30, 1977 - 89,000 shares)	1,726	1,780
100,000 Series A third preference shares (June 30, 1977 - no shares)	6,500	—
4,299,145 common shares (June 30, 1977 - 4,296,495 shares)	6,948	6,944
	<u>25,976</u>	<u>19,598</u>
<b>Retained Earnings</b>	<u>12,563</u>	<u>9,704</u>
	<u>38,539</u>	<u>29,302</u>
	<u>119,906</u>	<u>117,953</u>